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History of the Greenbacks.

THE enormous increase of governmental expenditures made necessary by war has been so often the occasion for issues of paper money that many people are ready to assume that a great war cannot be carried on without them. That idea is strengthened in this country by the fact that this Government resorted to paper money during the Civil War, was victorious in the war, and eventually brought the "greenbacks" to par with gold, and has retained them as a part of the permanent currency stock. A great many people were so favorably impressed by the apparent services of these paper issues during the war that they could see no reason for retiring or redeeming them at any time, and for fifteen years after the war was over the political life of this country was intensely agitated by controversies over them. There were proposals to pay the bonded debt by further issues, on the theory that what was good enough for the soldier was good enough for the bondholder, with numerous variations of the idea that the Government should furnish an adequate supply of money for every laudable enterprise, and it took a long, and at times doubtful, struggle to get this paper, originally issued as a temporary expedient to tide the country over a dire emergency, definitely established on a gold basis.

In the eyes of many people the "greenbacks" had become hallowed as an agency by which the life of the nation had been saved. They were lauded as means by which the country had escaped from the clutches of the money-lenders, and suggestions for their retirement were usually attributed to bankers, who were supposed to want them out of the way for selfish reasons. The influence of the paper money upon prices and wages was too obscure to be traced by the average man, but he thought he could see that the Government got something for nothing when it issued them, instead of hiring money from bankers, and this was held to account for all antagonism in that quarter. It was a difficult question to deal with in popular discussion. No issue could be injected into politics that would be more easily subject to misrepresentation or that would better serve the purpose of demagogues than the paper money issue which dominated our politics from 1865 to 1879. It is one of the most serious objections to any departure from sound principles in dealing with money, credit or banking that the controversies which inevitably result are sure to be distorted into the form of class conflicts—of antagonism between those who have capital and those who have not. The greatest mischief wrought by the "greenbacks" has been in fomenting agitation of this kind.

The Silver Agitation.

The country escaped the odium of repudiation in connection with its Civil War financing, but it was a grave question for a time what the outcome would be, and it escaped by a compromise which kept the Government notes in circulation with provisions for convertibility so inadequate that in every time of financial stress they have been an element of weakness. No competent student of our financial history doubts that in each one of our crises they have cost the country far more than their face value. Moreover the seeds of that agitation over the "greenbacks" sprang up again in the demand for the free coinage of silver, and all of the misrepresentations, all of the falsehoods and sophistries and insidious appeals to class feeling which had characterized the paper money campaigns had to be met again. Fortunately the proposition itself was defeated, and the financial theories of its advocates were so completely disproved by the general prosperity which followed that they were completely dropped, but the spirit of that free silver campaign is still very much alive.

The silver agitation was dealt with at first by compromise, and then by a second compromise which granted more to the agitators than the first. It grew stronger by what was fed to it, until it would accept no compromise, and then was defeated in a colossal struggle, and by none too safe a majority.

All of these compromises were insisted upon by "practical" people, who admitted that theo-

retically those who stood out for sound principles were probably correct, but that statesmanship required concessions; moreover, conditions were always "unusual." When the first "greenbacks" were issued the very existence of the nation seemed to be at stake, while in later emergencies times were hard, prices of products were low, mortgages were oppressive, industry was depressed, etc., and each time those who stood for sound principles were told that they had nothing constructive to offer. If they did not favor more paper money or more silver, what did they favor? And if they had nothing better to propose than to work out of the situation by the ordinary methods of industry, economy and individual adaptation to the conditions, they had better subside. Advice of that kind was held to be very commonplace and uninspiring.

Situation in 1861.

When Salmon P. Chase assumed the duties of Secretary of the Treasury, March 4, 1861, he found a very difficult situation confronting him. The Treasury was empty, revenues were running much below current ordinary expenses, the country was on the verge of civil war, financial and general business conditions were greatly disturbed and the public mind was in a state of wild confusion and alarm.

Revenues had been below expenditures in every year since 1857, the deficits having been met by floating obligations of various kinds, and Government credit was at low ebb. In September, 1860, Howell Cobb, Secretary of the Treasury, invited bids on $10,000,000 15-year 6 per cent bonds and accepted offers on about $7,000,000, but only one per cent had been paid on them when the election of Abraham Lincoln to the Presidency, in November, and the immediate threat of secession which followed, paralyzed the money markets, and most of the subscribers withdrew their tenders, forfeiting their advance payment. In December Cobb made another attempt to raise money, this time on short Treasury notes, and accepted offers of $1,831,000, ranging from 10 to 12 per cent interest. He resigned the same month to cast in his fortunes with the State of Georgia, which was seceding. He was succeeded by John F. Thompson of Maryland, who held office for only a few weeks and was succeeded in turn by John A. Dix, of New York. Dix had the confidence of New York bankers and was able to borrow $8,000,000 on notes at about 6½ per cent. The Southern Confederacy was formed February 4, 1861.

Chase had been a prominent lawyer and political leader in Ohio. He had served a term in the United States Senate, two terms as Governor of Ohio, and was a prominent candidate for the Republican nomination for the Presidency against Abraham Lincoln. He was a man of high qualifications as a lawyer, and of unquestioned integrity, but had no special qualifications for the post of Secretary of the Treasury. He was not pre-disposed toward paper money; on the contrary, he had definite opinions in opposition to it, particularly against bank issues, but he shared to some extent the popular suspicion of Wall Street bankers, or considered it politic to keep them at a distance.

The First War Loans.

Nevertheless, circumstances compelled him to look to Wall Street for help. It was impossible to borrow money abroad, and New York was the financial metropolis of the country. Congress was convened in extra session, and on July 17 and August 5, 1861, passed loan bills authorizing the Secretary to borrow $250,000,000 on three-year Treasury notes, drawing 7.30 per cent interest, or 20-year bonds drawing 7 per cent. It also authorized the issue in lieu of a part of the above of $50,000,000 in non-interest-bearing notes, to be paid out for salaries or other dues of the United States. These "demand notes" as they were called, were the first of the paper money issues, but they were not what came to be known as the "greenbacks." They were not legal tender and they were receivable for all dues to the Government, and at first were redeemed in coin on demand.

Armed with this authority, Secretary Chase came to New York, and met the Clearing House bankers together with representatives of the associated banks of Boston and Philadelphia, at a meeting which had been arranged on August 9. The disastrous battle of Bull Run had occurred on July 21, and the Secretary came to New York by way of Annapolis because the city of Baltimore was practically in the hands of the Confederates. Evidently those were trying days. The Secretary wished to raise $50,000,000 for immediate use and to arrange for the distribution of bonds to the public. The bankers responded patriotically and courageously. Moses Taylor, President of the City Bank, which later became the National City Bank, was Chairman of the Loan Committee of the New York Clearing House, and after a conference in the Committee and with the representatives of the Boston and Philadelphia Clearing Houses, he gave the reply which has become historic:

"Mr. Secretary, we have decided to subscribe for the $50,000,000 of United States securities you have offered, and to place the amount at your disposal so that you can begin drawing against it tomorrow morning."

This $50,000,000 was taken in the three-year 7.30 notes, and the Banks also entered into a tentative agreement to take $50,000,000 more on October 15, and a third $50,000,000 on

December 15. These were very large sums for that time, as the total coin reserves of all the banks of the three cities were only $63,000,000. Those of the New York banks were about $49,000,000. The understanding as to the second and third lots of notes was put in the form of an option to the Banks, and they were to offer the notes or bonds to the public. The Secretary of the Treasury was to cooperate in the sale by establishing agencies in other parts of the country. With these arrangements the public offerings began.

The sales throughout the country through the Secretary's agencies were so small that after a couple of months the agencies were discontinued. The general public was not yet worked up to the point or accustomed to the idea of subscribing to Government securities. The Banks of the three cities, however, pushed sales with sufficient success to be able to take the second $50,000,000 on October 15, and to take the third lot a month ahead of time, on November 16, instead of on December 15, as originally planned. They elected to take the third $50,000,000 in 7 per cent 20-year bonds, instead of 3-year notes.

Disagreements Between the Secretary and Bankers.

By this time disagreements had arisen between Secretary Chase and the associated bankers over questions of policy which in the opinion of the bankers seriously affected their ability to go on financing the Treasury by the plan they were pursuing.

They urged that in order to continue the program indefinitely it was absolutely necessary to maintain their reserves. They must promptly replace all sums withdrawn from them, either by selling bonds to the public or by receiving back as deposits the sums which the Government disbursed in payment for war supplies. By way of aiding in the maintenance of their reserves they asked the Secretary, instead of transferring the proceeds of the loans in coin to the sub-treasuries, to maintain checking accounts with the banks and draw directly upon these accounts in making payments to contractors. They held that authority had been granted in the very act authorizing the loans, dated August 5, 1861, to do this. The provision alluded to granted authority for "The Secretary of the Treasury to deposit any of the moneys obtained on any of the loans now authorized by law, to the credit of the Treasurer of the United States in such solvent specie-paying banks as he might select." On the face of it the bankers would seem to have the best of the argument in law, as they certainly had on the merits of the case, but the Secretary said that he was familiar with the origin of the statute and knew that the intent was to allow moneys to be deposited or collected in banks on their way to the Treasury but did not contemplate checking accounts.

The bankers were very much disappointed over this decision. Mr. George S. Coe, of the American Exchange Bank, who was an active participant in these events, afterward wrote an account of them which appeared in the "Bankers' Magazine" of January, 1876, in which upon this action he says:

> To draw from the Banks in coin the large sums involved in these loans, and to transfer them to the Treasury, thence to be widely scattered over the country at a moment when war had excited fear and distrust, was to be pulling out continually the foundations upon which the whole structure rested. And inasmuch as this money was loaned to the government, and was in no sense a trust reposed in the Banks, there appeared to them no reason why it should not be drawn by checks in favor of government contractors and creditors, who would require to exchange them for other values in commerce and trade, through the process of the clearing-house. And this consideration was greatly strengthened by the fact, that these advances were made, and the money publicly disbursed, a long time before the treasury notes were ready for delivery to the Banks which had paid for them. . . . It soon became manifest that, in consenting to have their hands tied and their most efficient powers restricted, and in allowing their coin reserves to be wasted by pouring them out upon the community in a manner so unnecessary and exceptional, the Banks deprived themselves and the government of the ability of long continuing, as they otherwise could have done, to negotiate the National loans upon a specie standard.
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> This first great error, if it did not create a necessity for the legal-tender notes, it certainly precipitated the adoption of that most unhappy expedient, and thereby committed the nation at an earlier day to the most expensive of all methods of financiering.

Another important question related to the so-called demand notes, of which $50,000,000 had been authorized. The bankers urged that these notes if placed in circulation would inevitably take the place of coin or bank notes and have an unfavorable effect upon their reserves in coin. Following is a brief quotation from Mr. Coe's statement upon this phase of the situation:

> A very small amount had been emitted. The Treasury was empty of coin to redeem them, and could only be replenished by the proceeds of the bank loans. It was evident to the bank officers that they could not sustain coin payments, if the transfers from their vaults to that of the Treasury were subject to be intercepted and absorbed by these notes of government. Nor could the Banks receive them upon deposit from the public as money, while they were responding to the government and to their own dealers in coin. It was an inflation of the currency in the form most embarrassing to the enterprise they had commenced. Accordingly, the Secretary was urgently solicited to refrain from exercising the discretionary powers given him of creating the Treasury currency, until all other means were exhausted.

Mr. Coe comments upon the final outcome as follows:

> In the meantime the 7-30 notes taken by the Banks had been purchased by the people to the extent of some fifty millions, notwithstanding a prolonged and vexatious delay in issuing them by the Treasury Department. The popular feeling was all that could have been desired for continuing that method of distribution. It may be confidently affirmed, that had the Banks been permitted to exercise their own methods of exchanging the bonds for the varied products of industry required by the government, they could have continued their advances in sums of fifty millions for an indefinite period, and until the available resources of the people had been all gathered in. It is to be borne in mind that these resources were all existing at home, and that the increased industry which the war excited was daily increasing new means for investment.
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> But at this time the demand notes were paid out freely by the Treasury, and began to appear as a cause of embarassment among the Banks which were pressed to receive them upon deposit; and while they could not decline them without diminishing public confidence in the government credit, they could not give them currency without impairing their own specie strength. In fact, the notes became at once a subsitute for coin withdrawn from circulation, and their emission expressed a purpose of resorting to government paper issues to carry on the war. So soon as these issues thus appeared, the reflux of coin to the Banks at once sensibly diminished. During three weeks from the 7th December, the reserve of the Banks in New York fell to $29,357,712,—a loss of thirteen millions within that short

period; and on the 28th December, after conference with the Secretary, in which he still adhered to the views before expressed, it was decided as expedient for the Banks to suspend specie payments.

It will be seen that Mr. Coe, an excellent authority, was of the opinion that if the Secretary had followed the advice given by the Bankers who were handling the loans, the suspension of specie payments and subsequent issues of government paper money might have been avoided. It is not possible to say positively that such would have been the case, but it is certain that the Secretary made a serious mistake in each instance. Unquestionably the effect of his actions was just what the Bankers predicted it would be.

Mr. E. G. Spaulding, member of Congress from Buffalo, was Chairman of the Sub-Committee on Loans of the Ways and Means Committee of the House at that time, and in that capacity prepared and reported the bill providing for the first legal tenders. After the war he prepared a book entitled "A History of the Legal Tender Paper Money Issued During the Great Rebellion," published in 1869, and in describing the conditions which led up to the legal tender acts he said:

The banks in New York, Boston and Philadelphia had, during the summer and fall of 1861, loaned to the government very nearly the sum of $150,000,000 in gold, which had so exhausted their resources that it was very difficult for many of them to pay the last installments due on the last loan of $50,000,000. These banks, at the commencement of the war, possessed a large part of the available gold in the country, but in paying over to the Treasurer the gold on these loans, and in the disbursement of the same to sustain the Army and Navy, it became so scattered that it could not, to any considerable extent, be re-loaned to the government, nor could it any longer be made available as a reserve for the banks.

There would have been some loss of reserves under any circumstances, and it is probable that the exciting political events had something to do with the losses which the Bank suffered. On November 8 Commodore Wilkes, of the United States frigate San Jacinto, took Messrs. Mason and Slidell, Confederate Commissioners to the British government, from the British mail steamer *Trent*. The British cabinet demanded the surrender of the Commissioners with an apology, and there was much anxiety over the affair, which undoubtedly accelerated the withdrawal of deposits from New York by the banks of the interior, as every period of alarm has done.

Moreover, the Secretary of the Treasury made other mistakes which contributed to the confusion into which financial affairs fell at this juncture. The country in the first two years of the war lacked vigorous and capable management of its finances as well as of its armies. Nothing of much consequence had been done as yet about increasing taxation, and efforts to enlist interest in the loans outside of New York, Boston and Philadelphia had been so feeble as to be almost a total failure.

Suspension of Specie Payments.

The suspension of specie payments by the banks of the three cities named meant that they had discontinued the redemption of their notes in gold or silver, also the payment of specie in ordinary transaction. The banks of other cities followed their example. All of these banks were organized under State charters, there being no national system at that time. The bank notes continued to circulate after the suspension, and in the case of well-known institutions, without much variation from gold in the neighborhood where issued, but a discount on bank notes at a distance from home was a common thing in those times. It was not the first time that the banks had suspended by common action; they had done so in 1857, and before that. Bank notes were the only money of the country, excepting gold and silver, and the latter when the banks suspended went out of circulation by being hoarded. In this instance the demand notes constituted a new form of paper money—Government paper—which remained in circulation.

The State Bank Currency.

The suspension of specie payments by the banks did not in itself necessitate a discontinuance of bond sales through the banks or a resort to Government paper money, but it changed the situation in some important respects. To go on as before it would have been necessary for the Treasury to receive payments for bonds in irredeemable bank notes, and this inevitably raised the question whether, if the war must be carried on with irredeemable paper, it had not better be government paper than bank paper. Much might have been said in favor of bank paper even in these circumstances; bankers have ways of stabilizing the value of their issues which are not at the command of government officials, and governments will hold banks to their obligations more strictly than they will perform their own obligations. There can be little doubt that if bank notes had continued to be the only paper currency specie payments would have been resumed long before they actually were.

Unfortunately, the state bank currency while a good currency in some of the states was very poor in others. Secretary Chase had come to Washington with the idea in his mind which eventuated in the national banking system—the idea of a national currency to be issued by local banks but made good without discount in every part of the country by being based on bonds of the national government, and he brought this plan forward in January, 1862. The leaders in Congress opposed it, for one reason because there was no time to develop a new banking system. Amid the confusion and paralysis of conflicting opinions the war expenses were growing daily with frightful rapidity and the Treasury must have immediate relief.

Secretary Chase held that he could not accept the current bank notes in payment for bonds, and apparently he was unable to sell bonds for specie. It looked, indeed, as though the jumping off place had been reached.

The First Legal Tenders.

Responsibility devolved upon the Sub-Committee of Ways and Means, and Mr. Spaulding and his associates, not readily but reluctantly, accepted the legal tender proposal as a temporary expedient until an adequate borrowing program could be developed. Mr. Spaulding reported a bill, which was adopted by the Ways and Means Committee, authorizing the issue of $150,000,000 of legal tender notes, of which $50,000,000 were to take the place of the demand notes.

An important feature of the proposed notes and of all the "greenbacks," as originally issued, was a provision allowing them to be funded at the will of the holder into 5-20 6 per cent bonds, the interest of which was payable semi-annually in coin. Unfortunately, this provision was afterward repealed; if it had remained in force it would have done much to sustain the value of the "greenbacks" and would have brought them to par many years earlier, without any further legislation. It was after this that the most serious depreciation occurred. Mr. Spaulding later pronounced the repeal of this privilege of conversion the worst mistake made in all the financial legislation of the war.

Secretary Chase accepted the proposed measure reluctantly in a letter which closed with the following paragraph:

Regretting exceedingly that it is found necessary to resort to the measure of making fundable notes of the United States a legal tender, but heartily desiring to co-operate with the Committee in all measures to meet existing necessities in the mode most useful and least hurtful to general interest, I remain, with great respect, etc.

The conservative business element was startled by the bill, and many protests were uttered. The New York, Boston and Philadelphia Clearing Houses sent delegations to Washington to oppose the policy, Mr. Coe heading the New York delegation. The answer made to these protests was that there was no other way to provide means of payment for immediate use. The following letter, written by Mr. Spaulding to a friend in New York, indicates his own state of mind, and some of the language sounds quite familiar even at this time. The italics are Mr. Spaulding's:

House of Representatives,
Washington, Jan. 8, 1862.

Isaac Sherman, Esq., New York.
Dear Sir:—

In reply to yours of the 4th instant I would say that the Treasury note bill for $100,000,000 agreed upon in Committee yesterday is a measure of *necessity* and not one of *choice*.

You criticise matters very freely, and very likely you may be right in what you say.

We will be out of means to pay the daily expenses in *about thirty days*, and the Committee do not see any other way to get along till we can get the tax bills ready, except to issue temporarily Treasury notes. Perhaps you can suggest some other mode of carrying on the Government for the next one hundred days. You do not pretend that any considerable amount of taxes can be collected for the next three months, even under your plan. It is much easier to *find fault* than it is to suggest *practicable means or measures*.

We must have at least $100,000,000 during the next three months, or the Government must stop payment. With the navy and an army of 700,000 men in the field, we cannot say that we will *not pay*.

I will thank you to suggest a better *practicable* mode of getting $100,000,000 of paying means during the next three months. I would be glad to adopt it, and the Committee would be glad to adopt it. Let us have *your specific plan* for this purpose—one that will produce the money—and we will be very much obliged to you. In haste

Yours truly,
E. G. Spaulding.

P.S.—I am as inpatient as you can be for an *early* and *successful* advance of the army, so important at this time to sustain the *credit* of the Government. Will it be done? You are just as well informed on that subject as any of us. I say to you privately that I could find fault more loudly than you do, but I will not do that without being able to suggest a *practicable remedy;* and I might say many things to you, personally, that I might not put on paper.

Confidentially yours,
E. G. S.

The inveterate antagonism to banks and the moneyed class appeared in the debate. Professor Dewey's Financial History of the United States says that "there was popular opposition to selling bonds below par," and that "banks were referred to as 'usurers' and 'note-shavers;' 'shinning' by the Government through Wall street was strongly condemned; and the Government was advised to "nerve up." "Why, then, go into the street at all to borrow money?" I prefer to assert the power and dignity of the Government by the issue of its own notes," etc.

There was not wanting vigorous opposition in Congress. Justin S. Morrill, of Vermont, already a man of high rank in the House, and destined for a long and distinguished career in both houses, said:

If it be a war measure, it is a measure which will be of greater advantage to the enemy. I would as soon provide Chinese wooden guns for the army as paper money alone for the army. It will be a breach of public faith. It will injure creditors; it will increase prices; it will increase many fold the cost of the war.

Roscoe Conkling, then a member of the House, said in part:

What is the necessity which prevents adherence to the old and approved methods of raising money? The arguments must be two-fold: First, that the people will be better ready at some other time than the present to pay what, in the end, they must pay, with interest; and second, that necessary and legitimate taxation will be unpopular, and bring denunciation upon those who vote it. Sir, I take issue upon both propositions. . . . We are able to pay now, and we never can pay better than now.

There is one thing about the proposed banking scheme, and about the bill before us, intended probably to attract votes, which seems of very questionable policy and very doubtful ethics. I mean hostility to the existing banks of the country. And inasmuch as I own not a farthing in the stock of any bank, and have not the slightest connection with one, perhaps a word in behalf of banks in loyal States will be borne with from me.

The present troubles, or rather their own patriotic action, have broken the banks; for every commercial man in this House knows that the banks were never stronger than when the Secretary of the Treasury appealed to them for loans. They allowed the Government to carry off their specie, their capital from their vaults, and if that did not break them, they at all events might have adopted a policy which would have saved them. But they had to suspend, and the design of this bill would seem to be to prevent their resumption of specie payment. At all events, it is obviously the policy in some quarters to preach a crusade against the present banks, and array prejudices and votes on that issue. . .

Every agent, attorney, treasurer, trustee, guardian, executor, administrator, consignee, commission merchant, and every debtor of a fiduciary character who has received for others money, hard money, worth a hundred cents in the dollar, will forever release himself from liability by buying up for that knavish purpose, at its depreciated value, the spurious currency which we shall have put afloat. Everybody will do it except those who are more honest than the American Congress advises them to be. Think of savings banks entrusted with enormous aggregates of the pittances of the poor, the hungry, and the homeless, the stranger, the needle-woman, the widow and the orphan, and we are arranging for a robbery of ten, if not fifty, per cent. of the entire amount, and that by a contrivance so new as never to have been discovered under the administration of Monroe Edwards or James Buchanan.

To reverse the picture; after the act shall have gone into effect, honest men undertake transactions based upon the spurious

tender at its then value. By and by comes a repeal, and they are driven to ruin in multitudes by the inevitable loss incident to a return to metallic currency. . .

The main contest over the bill was upon the legal tender clause, and after that was adopted its passage was certain. After the vote on this question the Washington correspondent of the Albany "Evening Journal" sent a dispatch to his paper from which the following is an extract:

Washington, February 6, 1862.

This has been an exciting day in the House. A fierce battle has been waged against the 'legal tender' Treasury notes. But, as I think the right has prevailed, and by a vote of 95 to 59—a much stronger force than was counted upon, the real argument was reduced to a very small compass.

It was not strange that members of the same political family, differed on a question of really doubtful expediency. And but for the necessities of Government, I doubt whether the 'legal tender' principle would have received a dozen votes in the House. It is a new financial principle, and its workings may result in some, if not all the evils predicted from it. Nevertheless, as Treasury Notes *had* to be resorted to, the common sense of the House, as well as the common sense of the people, determined that they should be made as near the practical value of gold as possible. Mr. Spalding, of Erie, has had to assume the laboring oar in this financial expedient. He had but a bare majority of his Committee with him at the outset; and, when the Secretary of the Treasury hesitated, as he did for several days, the Committee became equally divided. And yet, the measure carried a large majority of the House with it—a fact as gratifying to Mr. S. as it is complimentary to his financial acumen.

The country breathes freer! The legal tender bill has passed the House, and national bankruptcy is averted.

The bill in its final form, requiring customs duties and interest on the public debt to be paid in gold, became a law on February 25, 1862.

In the meantime authority to issue $10,000,000 more of demand notes had been granted, raising these to $60,000,000, and in March these were all made legal tender.

Further Issues of the Greenbacks.

On the 7th of June following, Secretary Chase sent a communication to Congress stating that the demands upon the Treasury made it necessary for him to ask for authority to issue another $150,000,000 of legal tender notes, and ten days later a bill to this effect was reported and Mr. Spaulding opened the discussion. In his speech he said:

"I trust that there will be no necessity for any considerable issue of new notes; but to guard against possible contingencies, I am willing to confer large powers upon the Secretary, believing that he will exercise the power wisely, patriotically, and for the best interests of the country."

Up to this time the legal tenders had not fallen very far below par, the average of daily gold quotations in June showing them at 94. Gold and silver had disappeared from circulation, business was active, prices were rising, and these influences helped to absorb the notes. There was encouragement to issue more, and the bill passed the House by a vote of 76 to 47 and the Senate by 22 to 13.

In the following December, Secretary Chase asked for still more legal tenders, together with large authority for negotiating loans, and also submitted in more developed form his plan for a National banking system which was enacted at the session then beginning.

Up to this time there had been very little war taxation. Professor Dewey* says that "in the development of a tax system appropriate to the events and conditions of the war, Chase took no leadership. He believed that the war demanded no extraordinary taxation beyond what was necessary to pay the interest on the new loans created, and to extinguish annually a small amount of the new debt."

Moreover he did not push bond sales. The act of February 25, 1862, had authorized him to sell $500,000,000 of 5-20 6 per cent bonds "at the market value thereof," but the Secretary held that "market value" meant whatever they would bring above par, and that he was not authorized to sell below par. The total sales to December were only about $25,000,000.

Other Borrowing.

Congress had authorized two forms of short time interest-bearing indebtedness which helped the situation. One of these authorized the Secretary to receive deposits of money in sums not less than $100 at any office of the Treasury at 5 per cent interest, depositors to have the privilege of withdrawing it at any time after thirty days by giving ten days' notice. This provision proved popular, and the interest rate was raised to 6 per cent. These deposits reached at one time $120,000,000. The other form was a certificate of indebtedness, in effect a promissory note, which the Secretary was authorized to issue to creditors who were willing to receive them in settlement of audited accounts, running one year at 6 per cent. These certificates were issued in the form of a bank note and passed current as money to some extent. The highest amount of these notes outstanding at any time was $238,000,000.

By means of these expedients and the legal tenders the Treasury made its way through the year 1862, but no adequate plan for raising from the people the money for carrying on the war had been adopted. The importance of economizing in individual expenditures, of restricting their own purchases and of turning purchasing power over to the Government had not been emphasized.

By the close of the year the Treasury was in close straits. A resolution passed the House calling upon the Secretary to explain why requisitions of paymasters in the army for funds to pay the soldiers were not promptly filled. On January 7, 1863, the Secretary in a letter to the Finance Committee of the Senate stated that the amount then due the army and navy was about $60,000,000 and asked that provision be made for immediate payment.

Mr. Spaulding was still faithful, and opened the debate with a speech upon the situation. He said:

We have the monster rebellion by the ears, like the backwoodsman who held the ferocious wolf—if we let go, he will destroy us, we must therefore hold on till we subdue him. . . .;

"I have an aversion to any considerable further issue of legal notes, and can only consent to it as an imperative necessity. I think too large an issue will tend to inflate prices but I do not see how it can be avoided. I do not see how the soldiers are to be paid, or how the Government can be carried on, in any other way."

* Financial History of the United States, by Professor Davis R. Dewey, Massachusetts Institute of Technology.

He argued that there was still an actual shortage of currency to handle the business of the country, saying:

"What causes this scarcity of currency? In the first place, as before stated, gold and silver no longer circulate as currency within the United States. Gold is only required to settle foreign balances, pay custom duties and interest on the public debt. It is bought and sold for these purposes as a commodity, but it does not circulate as money in ordinary business operations. Its place is supplied by bank bills and legal tender notes. In the next place, the large increase of business suddenly created by such a gigantic war as we are now prosecuting, has largely increased the demand for a larger volume of currency than was ever required before."

He made a reference to the excellent bank note currency of New England as follows:

It is well known that all the New England and New York country banks redeem their bills now at the Suffolk Bank, Boston, and the Metropolitan Bank, New York, precisely as they did before the suspension of specie payments. This system checks any tendency to over issue, and is a touchstone by which to test daily the demand for bank bills. If they are not needed for legitimate business, they flow in rapidly to the redeeming banks, but if they are wanted they stay out. This test is unerring. The daily redemptions, for months past, have not been half what they were when the volume of bank circulation was less by a third than it is at this time.

Congress met this emergency by rushing through a joint resolution authorizing the immediate issue of $100,000,000 more legal tenders, the same to be a part of any amount that might be provided for by future legislation. This referred to a loan bill then pending which carried provision for $150,000,000 legal tenders and became a law March 3, 1863, raising the total amount of greenbacks authorized (including those intended to take place of demand notes) to $450,000,000.

President Lincoln, upon signing the above joint resolution, sent a message to Congress in which he said:

"While giving this approval, however, I think it my duty to express my sincere regret that it has been found necessary to authorize so large an additional issue of United States notes, when this circulation and that of the suspended banks together have become already so redundant as to increase prices beyond real values, thereby augmenting the cost of living to the injury of labor, and the cost of supplies to the injury of the whole country."

This $150,000,000 was the last of the issues of non-interest bearing legal tender notes. Other notes carrying the legal tender quality were issued, but they all bore interest at 5 or 6 per cent. They entered to some extent into circulation until interest accumulated on them, when they were usually withheld. They took the place of money, however, in bank reserves and helped to inflate the currency.

Permanent Financing.

The expenses of the war were still mounting higher, but from the passage of the act of March 3, 1863, the methods of raising money were more effective. This act made clear the authority to sell bonds at the market rate, even below par. Jay Cooke was appointed General Agent of the Treasury and organized an aggressive selling campaign on a commission basis, receiving three-eighths of one per cent. He appointed 2,500 sub-agents, advertised extensively and canvassed the country, with the result that the Secretary was able to report in December the sale of nearly $400,000,000 of bonds. Taxation also by this time had begun to produce results. The country at last was getting down to business.

Secretary Chase in his report of December, 1863, reviewed and justified the issue of greenbacks in the following discussion:

"The limit prescribed by law to the issue of United States notes has been reached, and the Secretary thinks it clearly inexpedient to increase the amount. When circulation exceeds the legitimate requirements for real payments and exchanges, no addition to its volume will increase its value. On the contrary, such addition tends inevitably to depreciation; and depreciation, if addition be continued, will find its only practical limit in the utter worthlessness of the augmented mass.

"When Congress authorized the creation of debt, to a certain extent, in the form of United States notes, and impressed on these notes the qualities of a circulation medium, its action was justified by the disappearance of coin in consequence of the suspension of specie payments; by the necessity of providing a medium in which taxes could be collected, loans received, and payments made; and by the obvious expediency of providing that medium in the form of national issues instead of resorting to the paper of banks. Under the circumstances its action was wise and necessary; but it was equally wise and necessary to limit the extent of the issues by the necessity which demanded them. They were wanted to fill the vacuum caused by the disappearance of coin and to supply the additional demands created by the increased number and variety of money payments. Congress believed that four hundred millions would suffice for these purposes, and therefore limited issues to that sum.

"The Secretary proposes no change of this limitation, and places no reliance, therefore, on any increase of resources from increase of circulation. Additional loans in this mode would, indeed, almost certainly prove illusory for diminished value could hardly fail to neutralize increased amount.

"Sufficient circulation having been already provided, the government must now borrow like any other employer of capital temporarily requiring more than income will supply, and rely for the credit which will secure advantageous loans upon good faith, industrial activity, accumulated though not immediately available capital, and satisfactory provision for punctual payment of accruing interest and ultimate reimbursement of principal."

It will be seen that he justified the issues wholly on the theory that they were necessary to supply the country with a medium of exchange after the bank notes had become irredeemable and gold and silver had disappeared from circulation. He does not claim that they were an economical substitute for interest-bearing bonds, or even that they were necessary for any other reason than that they afforded a currency by means of which the Treasury could collect the proceeds of tax levies and loans and the business of the country could be carried on. In the last paragraph of the quotation he distinctly repudiates all of the arguments usually offered in favor of government issues of paper money.

Did the Greenbacks Save the Union?

The total expenditures of the Government during the four fiscal years beginning July 1, 1861, and ending June 30, 1865, were $3,348,369,000. The war began before July 1, 1861, and the expenditures on its account continued much beyond June 30, 1865, but if we compare the foregoing figures of expenditures during the four years with the total authorized issue of demand notes and greenbacks, $460,000,000, it will be seen how relatively small a proportion of the war costs was defrayed by means of these government notes.

The notes were all issued during the first two years of the war when expenditures were low in comparison with what they became later. The embarrassment of the Government in those first years was not due to inability on the part of the country to raise the funds required. The country

was not so much better off after two years of war, but the Government at last had an effectual policy. The Secretary of the Treasury was a patriotic and in some respects able man, but he was not an experienced financier, and the difficulties were greatly aggravated by the fact that the country was without an adequate banking system, national in scope.

The legal tender notes not only did not save money to the Government but by increasing the cost of all its purchases they undoubtedly compelled the issue of more bonds than would have been necessary if legal tender notes had not been resorted to at all. They are not, however, properly chargeable with all of the inflation which occurred. The National bank act, which went into effect in 1863, brought about further issues of paper money which although "good" in the sense of being well secured and redeemable, had the same effect upon prices as the legal tender issues.

The depreciation of the currency, measured in gold, is seen in the following table, which gives by months, 1862-1865, the average gold price of one hundred dollars in currency in New York:

MONTH	1862	1863	1864	1865
January	$98	$69	$64	$46
February	97	62	63	49
March	98	65	61	57
April	98	66	58	67
May	97	67	57	74
June	94	69	47	71
July	87	77	39	70
August	87	79	39	70
September	84	74	45	69
October	78	68	48	69
November	76	68	43	68
December	76	66	44	68

Professor Dewey says that "the total effect of paper issues in increasing the cost of the war has been estimated at between $528,000,000 and $600,000,000," and adds that "even this large amount is small when compared with the burdens which inflated prices placed upon the people in the ordinary relations of trade and industry."

Professor Dewey goes on to say that "true to the general law that wages of labor do not respond to economic forces as promptly as prices of commodities, statistical inquiry shows that the depreciated value of the money medium during the Civil War was not reflected in an equal measure by an increase of money wages." The tables of wages and prices compiled by Professor R. P. Falkner, of the University of Pennsylvania, for the Aldrich report, showed percentages of increases over 1860 figures as follows:

YEAR	PRICES	MONEY WAGES
1860	100.0	100.0
1861	100.6	100.8
1862	117.8	102.9
1863	148.6	110.5
1864	190.5	125.6
1865	216.8	143.1

Mr. Spaulding in his book comments upon the effects of inflation as follows:

"The withdrawal of such a larger number of youthful laboring men into a vast army of unproductive labor, and the mistake made in the over-issue of paper currency, so inflated prices as to materially increase the expenses of the war. It also embarrassed the people engaged in legitimate pursuits; laborers struck for higher wages, and the price of commodities greatly increased, causing considerable difficulty in keeping up the productive energies of the country, especially in establishments where large gangs of men are employed."

Paper Money Prosperity.

While this inflation was going on, the country was apparently prosperous. Prices were advancing, business was active, enterprise was abounding as is always the case when property will sell for more money each month than it would bring a month before. Such is not a real or substantial prosperity, but it is always deceptive at the time, and is the secret of paper money popularity. As usual under such conditions the people went heavily into debt on the strength of these apparent values, and the whole financial structure was weakened. After the war was over public men like Mr. Spaulding, who had regarded the paper money issues as temporary and considered the faith of the country pledged to their redemption at par, began to take steps for so doing, but of course raising the value of the paper currency from 44 cents in gold in December, 1864, to 100 cents gold, meant that the value of all property, stated in terms of currency, which was the common medium in which prices were made, must shrink in corresponding ratio, while on the other hand the indebtedness of property owners did not shrink at all. This was the other side of the fictitious prosperity, of which Roscoe Conkling and others had given warning.

As soon as the logic of the situation was realized, there arose a great protest against any further efforts to bring the paper money to par, and but for the firm stand of President Grant this opposition would have been successful. As it was, resumption was delayed until 1879, and the complete retirement of the notes was defeated. Nevertheless, with the volume of notes definitely restricted, and the country growing, and looking eventually to resumption, an appreciation of the notes was inevitable and the effect upon property values in currency was very unfavorable. Moreover, with the return of the soldiers to industry and particularly to the farms, the opening of new lands by the extension of railways and an increasing tide of immigration, farm products fell to unremunerative prices. It was all laid by agitators to the efforts to resume specie payments.

Panic of 1873.

The culmination came in the panic of 1873, one of the worst the country had ever known, which left a trail of bankruptcies, and was followed by a long period of depression, lasting until the last vestige of difference between the paper dollar and the gold dollar disappeared on January 1, 1879. The newly built railways went into the hands of receivers, the late booming cities went into collapse, enterprise was dead, building operations were suspended, industry was stagnant, furnaces were cold, workmen walked the streets in vain for employment and mobs in Pitts-

burg and other centers caused the most serious disturbances growing out of industrial conditions ever known up to that time in this country. Foreclosure proceedings made the business of the sheriff among the most prosperous in the country. During that long drawn-out period of distress, the country was suffering in expiation of its violation of sound principles of finance, and it is not too much to say that the losses in those six months from the prostration of industry amounted to more than the direct costs of the war.

Following the resumption of gold payments there was a speedy revival of prosperity, which the Secretary of the Treasury, John Sherman, touched upon in his report to Congress in December, 1879, in part as follows:

"The specie standard, thus happily secured, has given an impetus to all kinds of business. Many industries, greatly depressed since the panic of 1873, have revived while increased activity has been shown in all branches of production, trade, and commerce. Every preparation for resumption was accompanied with increased business and confidence, and its consummation has been followed by a revival of productive industry unexampled in our previous history."

With the country back on a gold basis, business men felt solid ground under their feet. They felt that liquidation at last was over, that inflation had been eliminated and that prices and values in this country were again related to the world's standard of value. Confidence was restored for the time being, although the heresies which still lurked in many minds and in the financial system itself were destined to yet cost the country dearly.

Lessons from the Civil War Experience.

The fallacy of supposing that a Government can save anything by using its non-interest bearing obligations as a medium of purchases, even by making them legal tender, is the most obvious lesson of the Civil War experience, but it is not the most important lesson. The most important warning is that the Government cannot be safely financed by simply creating credit facilities. The greenbacks were a form of credit and enabled the Government to enter the markets and make purchases required, and bank credit will do the same, but there are after-results which follow the expansion of credit by either of these methods.

These are simply facilities for making payments, and it is doubtless true that in some degree production is affected by the facilities for handling or paying for the products. If transportation facilities were lacking for moving wheat from Kansas wheat-growing there would be discouraged, but after all there is a limit to the influence of transportation facilities upon the wheat crop. When the population of Kansas has done its best at wheat-growing the addition of transportation facilities will not enlarge the crop. And so when the industrial forces of a country are already working to capacity the output cannot be increased by enlarging the credit facilities by which purchases are made.

Inflation is the result of allowing credit to be used without restraint in a competitive struggle for a limited supply of labor and materials. Some years ago Northern Pacific Railway stock was bid up to $1,000 per share because there was competition over a limited supply between buyers who had ample credit at their command. Something like that struggle is now going on in industry. Food production is as important as anything else, but the farms are losing labor at an alarming rate by reason of the attractions held out elsewhere. The railways have been seriously embarrassed by the loss of experienced labor to the war industries, and the industries generally, many of which are engaged upon war contracts, are now suffering from a loss of labor to the shipyards. The President of the Pressed Steel Car Company in his report to stockholders a few days ago stated that that company's labor turn-over in the last year was 300 per cent. and that wages had increased 50 per cent, while efficiency had decreased 50 per cent. That the cost of living has been advancing along with wages, possibly even faster, is only another symptom of conditions. If labor continues to leave the farms the cost of living will continue to go higher.

The Alternative to Inflation.

The real want of the time is for man-power and the things which man-power can produce. With a shortage of labor already existing, the increasing demand for things must be met by organizing labor more efficiently, by greater use of labor-saving methods and by transferring labor from non-essential or less-essential employments to the work which is of vital importance. This is the aim of the policy which has been adopted with the railroads. The highest possible efficiency is sought in their operations, and their services are to be available first for the essential needs. The same end must be accomplished in the industries generally. Contracts should be distributed with a view to utilizing existing industrial organizations and equipment most effectively and of diverting labor from non-essential production. The industrial managers of the country are eager and impatient to know how they can use their plants to forward the plans of the Government.

It has been asked what is the alternative to continued expansion of credit. The answer is in a resolute substitution of war work for non-essential industry, instead of attempting to do the war work in addition to supplying all the private demands which the public is accustomed to make. This shift cannot be accomplished without leadership or without compulsion, and without it we will neither win the war nor escape a state of inflation from which the consequences will be disastrous.

By one route or another we must come to this substitution at last. If we supply the Government with bank-credit as a means of making its

purchases it will indeed be able to make them, but this new credit when put into circulation and added to the existing volume of purchasing facilities will force up prices until a portion of the demand is eliminated and a new equilibrium between demand and supply is established. Thus the same degree of curtailment in private consumption will have been arrived at by a blind, automatic, competitive struggle as might have been accomplished by intelligent self-restraint or authoritative management.

Inflation and Deflation.

Roughly speaking it is said that the debtor class will gain by inflation and the creditor class lose, and it is usually assumed that the debtor class is composed of poor people and the creditor class of rich people, but this classification is widely erroneous. The owners of property, the employers of labor and operators of business belong with the debtors rather than with the creditors, so far as the effects of rising prices are concerned. What they own and what they sell is not ordinarily fixed in price, although that is true of most public utilities. The great bulk of private property usually responds in nominal values to changes in the prices of the products. The laborer for fixed wages is in the creditor rather than the debtor class, and while wages in some lines follow more or less closely the general state of business activity, in many instances they lag seriously behind advances in the cost of living. The salaried class and all who for any reason are least independent and able to help themselves are sufferers by rising prices.

Along with these is the great body of people who are not in business but who have saved something for old age or a rainy day, and have it out at interest, or in a bank, or who have made provision for dependents by carrying life insurance. If it is assumed that the present level of prices and cost of living is permanent, then it must be allowed that since 1914 nearly one-half the value of all such savings have been wiped out as with a sponge! Do we realize what is taking place, and are we content for the sake of maintaining for a time the useless effort to do business as usual to allow this process to go on?

But it will be said that this situation is only temporary, that after the war prices will subside and those losses which now appear on paper will be recovered. Very well, suppose we take that horn of the dilemma, and face the task of reducing wages to the pre-war level, and of paying the debts and taxes inherited from the war out of the pre-war profits and earnings. Is that outlook so much more encouraging as to reconcile us to going still further on the path which must be retraced?

There are many uncertainties about the future but one thing is certain, and that is that the gravest dangers will be connected with the inflation of wages, prices and indebtedness. It is granted that a degree of inflation is unavoidable, and a degree great enough to cause serious concern has already occurred. With another great loan pending more is unavoidable and the end is not in sight, but it is of the highest importance that the tendencies shall be understood and that the remedy shall be applied so far as possible. That remedy lies in concentrating the energies and resources of the country upon necessary work to the exclusion of work which is not necessary either to the prosecution of the war or to sustain the health and strength of the people, and in finding purchasing power for the Government by conserving and transferring to it the purchasing power of the people.

The Gold Reserve.

It may be not out of place to utter a word of caution about the value and use of the great gold reserve which is steadily growing in the vaults of the Federal reserve banks. The amendments to the reserve act adopted last year were for the purpose of aiding in this accumulation of gold, and they were generally supported on the ground that larger reserves would strengthen the system against emergency demands and inspire confidence in its stability. We approved of them for this reason.

It will be a mistake, however, to assume that with all of the gold of the country gathered into the reserve banks it will be just as safe to run up the liabilities until the reserve is down to 40 per cent, as it would have been with the member banks still holding important amounts, as before. The eggs are being gathered into one basket and the basket should be guarded with great care.

The main advantage in gathering together a great gold reserve in these banks of issue is in the power which is thus created to protect all of the local banks of the country against any possible alarm among their depositors. Gold in the possession of the reserve banks gains 150 per cent in efficiency by reason of the note-issuing powers of these banks, not to speak of the advantage derived from having the reserves concentrated in practically one store.

This is the great purpose gained by the concentration of gold in the reserve banks. It gives security to the banks in their relations with depositors, and although that by no means was the only object in forming the reserve system it was the first object.

It cannot be properly said of these gold holdings that such or such a percentage is sufficient to maintain the notes at par, as though this was the only consideration. There are two other considerations: First, to maintain the reserve capacity to issue at any time great quantities of notes to support the member banks against calls upon them by depositors, their own re-

serves being now unimportant; and, second, it is the duty of the reserve banks to guard the country against inflation.

One of the ablest editorial writers of the country illustrates the confusion of ideas which prevails on the subject by saying that "our trouble is less with an inflation of capital or credit than with the inflation of prices due to the increase of wages." The increase of wages and prices is precisely the form in which an inflation of credit or money works out its effects. Moreover, credit inflation is not dependent upon whether or not the collateral is good or the obligations certain to be paid in gold. If an attempt is made to use a greatly increased amount of credit or money, without any corresponding increase in the supply of labor, the effect will be to create precisely the conditions described above.

War Finance Corporation.

The bill for a War Finance Corporation has been reported to the Senate favorably, with certain amendments touching the organization and emphasizing the exceptional conditions under which the authority thus granted is designed to be exercised. It is generally agreed that the time has come for the Government to have control over the investment market, with a view to preventing the absorption of capital and labor in enterprises which are now of secondary public importance, and no doubt there is need for the Government to provide special facilities for financing private enterprises which are engaged in war work or business vital to the general welfare. The plan of the War Finance Corporation is well adapted to these ends. It will be provided with a capital of $500,000,000, subscribed by the Government, and it will be authorized to issue its own obligations, running from one to five years, which may be sold to the public and the proceeds used to carry out the purpose in view.

We have had nothing but commendations for this part of the plan, but have deprecated the proposal to admit investment securities sold for the purpose of raising more or less permanent capital as the basis of loans and currency issues by the reserve banks. We have done so because we are sure there is no necessity for such action, and have misgivings that the grant of power will create strong pressure for its use, and tend to divert attention from the policy of general restraint upon private expenditures, which we believe to be the true one for this time.

So far as protection of savings banks is concerned we have stated that provision to pay their depositors, if there is any occasion for so doing, is not open to the objection raised against supplying money for industry, for if depositors want their money for the purpose of buying Government bonds all payments to them will come into the Treasury and can be returned to the reserve banks as deposits. It is only as loans are made in attempts to enlarge the volume of industry, at a time when by reason of natural limitations, it cannot be enlarged, that inflation occurs. Likewise, refunding operations make no demands upon labor or new capital, and therefore do not require resort to the reserve banks.

With a close control over the investment market to restrict the employment of capital to approved undertakings, there is no reason to doubt that there will be plenty of capital to meet the important demands contemplated in the bill. At any rate it is certain that no capital can be created by borrowing of the reserve banks at a time when the working forces of the country are already employed to the limit. The point has been reached then when the relief must come by another method —the method referred to by a member of the Federal Reserve Board in a recent address, in the following language:

> The question which I believe, in view of this situation, the country must soon face, is whether it will be the part of financial prudence for us to attempt to finance our government loans by an expansion of banking credit with accompanying inflation of prices, or whether it will be better, however drastic the steps necessary to accomplish this result may be, to pursue the course of converting the potential savings fund of the nation into an actual savings fund of sufficient magnitude to absorb the loans of the government as *savings loans*.*

The Federal Reserve Board as a body has repeatedly expressed itself in a similar manner.

The pending bill seems likely to become a law without important changes, and will doubtless be administered with great discretion. Our attitude toward the questionable feature has been prompted by apprehension that the public would interpret the measure as providing for expansion, and proceed to manage its private affairs in such manner that the authorities might be compelled finally by resulting conditions to use the new powers to a degree which at the outset they do not contemplate.

The interpretation which at least a portion of the public places upon the measure was stated by the market reporter of the *Wall Street Journal* after it had been reported to the Senate, as follows:

> The economist who argued that eggs now selling at 60 cents a dozen would sell at $1.50 when the War Finance Bill became a law gave an illustration which the public understands. He may not be exactly right on figures but the financial district sides with him in his argument. It follows that with commodity prices higher many other things which money can buy, stocks included, may sell higher.

This cheerful view is not confined to the stock market, and probably there are more who hold it than there are who understand that to whatever extent the act has influence upon industrial conditions it will increase the cost of the war and the amount which the Government must raise by taxation and loans.

* Address of Dr. A. C. Miller before the American Academy of Political Science, Philadelphia, November, 1917.

The Money Market.

The money market has shown but little change during the past month. Time loans are on a 6 per cent. basis, although a few are made at 5¾. The large banks are out of the commercial paper market, but a considerable volume of paper is handled the country over. The call rate in this city has ranged from 3 to 6 per cent., and been nearer the latter figure most of the time. There is no reason in sight for expecting any important change, for the reserve banks can undoubtedly take care of any necessary demands and the Government's necessities will prevent any general relaxation. Banks are conservative and making commitments only as they are under obligations to take care of necessary business.

Some disposition is manifest to raise interest rates on deposits for the purpose of attracting deposits, and the situation raises anew the old question whether a sliding scale on deposits, automatically related to Federal reserve rates, or some other standard, would not be better than the flat rate, but there is little reason to believe that a sliding scale with the general agreement necessary to sustain it could be made permanent in this country. There is a competitive situation not only as between banks of the same city but as between the banks of many cities, and the present does not seem to be a good time for disturbing the adjustment of rates which has been reached in the past. At present loaning rates are comparatively high, but this is following several years when they have been low, and it is probable that other years of low rates will follow the present situation. At this time it seems desirable that every tendency to inflation and to abnormal conditions should be avoided so far as possible. An increase of deposit rates if adopted generally in the centers will surely extend into all localities, and raise the general level of costs upon which the banking business is conducted. That in turn will increase the anxiety for earnings, and have an unfavorable effect upon the situation in many ways. The banks are carrying numerous subscribers to the Government loans at low rates, and if deposits cost more these loans will naturally come higher or be discouraged. The Government is the largest borrower at this time and if the cost of money is raised it will inevitably suffer. It would be unfortunate to have a general withdrawal of deposits from the banks for investment in the Government loans, but on the other hand it is not desirable to have rates upon deposits which will tend to keep new capital from going into the loans. It is a very inopportune time for the banks to enter into a competitive struggle for deposits. The effect would be greatly to aggravate and extend the evils already resulting from the competitive struggle over labor and raw materials.

The Federal Reserve Board has given out a statement expressing its concern over the movement, and giving cogent reasons for its disapproval. This prompt and appropriate action is likely to be generally accepted as conclusive upon the subject.

The volume of bank loans tends upward and this is not entirely accounted for by the purchases of Treasury Certificates. The reports of member banks to the Federal Reserve Board show that aside from loans upon or investments in United States securities, loans and investments on February 15 aggregated $10,026,818,000, against 9,862,409,000 on February 8. These figures were for 670 banks on the latter date and 679 on the former. It is not a satisfactory showing, with a Government loan looming up in the near future, and doubtless the trying business conditions of the last three months are in large degree responsible. There is still a great amount of farm produce to be marketed, particularly in the middle west, where the railways have been unable to move it as promptly as usual and the amount of soft corn has caused the farmers to fatten more live stock and feed it longer than is customary. There is reason to expect a great loosening up in that quarter in the next few months.

Railway traffic conditions have greatly improved in the last month and business reports, are good from all quarters. Retail sales are large, and merchants have more trouble getting goods than in disposing of them. Price reduction sales since the first of the year have been smaller than usual, merchants holding that it is better to carry stock over than to run the risk of not being able to replace it.

The Northwestern National Bank of Minneapolis gives interesting figures upon the increase of time deposits in the state banks and trust companies of Minnesota, North Dakota, South Dakota and Montana. It is not safe to accept an increase in demand deposits as a showing of accumulations, for they are largely a result of loans made by the banks themselves, but time certificates of deposit in these states as the Northwestern Bank Review says, mainly represent savings of farmers. During the last year these interest-bearing funds together with the smaller sum held in the form of savings accounts in the four states increased over $50,000,000, and the total is $360,000,000.

Government Finance.

Sales of Treasury certificates in February to the 23rd amounted to $896,806,500. Early in the month the Secretary appealed to the banks to subscribe more generally and suggested that they adopt the policy of taking weekly an amount equal to one per cent of their total resources, not to exceed in all ten per cent. The response falling below expectations he decided to raise the interest rate and offered $500,000,000 of the certificates, dated February 27th, and due May 28th, at 4½ per cent. In

repeating his request that the banks make regular provision for investment in the certificates the Secretary said:

It should be borne in mind, furthermore, that the program of setting aside 1% a week and subscribing 2% for each issue is a minimum program; that there must be some banks and trust companies which cannot meet even this program and others which can do much more than the minimum. Those banks and trust companies that can should of course take certificates in excess of the indicated minimum.

The advance to 4½ per cent on the certificates has been generally accepted as foreshadowing an advance in the rate upon the Third Liberty Loan, and the first and second issues have had an advance on the market of about one point in consequence.

Up to and including the 23rd, ordinary and special Treasury disbursements for February, including loans to foreign governments, aggregated $850,302,822.

The War Savings Campaign is coming along encouragingly. Receipts from stamp sales during the first twenty-three days of February aggregated $34,165,442, an average of nearly $1,500,000 for every day, including Sundays and holidays. The number of agencies for the sale of stamps is constantly increasing and the income should grow steadily larger throughout the year.

It is of interest in this connection that the total amount raised in the United Kingdom up to the finish of this year by the various methods directed especially to the small investor was £258,000,000, or approximately $1,000,000,000. It is of further interest to know that although all of these offerings pay higher rates of interest than savings bank deposits, the latter are greater now than at the beginning of the war. In line with this are reports from certain schools in the United States which have maintained a savings system for some years that although these schools have been vigorously pushing this sale of thrift stamps the regular savings have continued to increase. These facts prove what has been proved many times before, that the habit of saving grows by cultivation, and therein lies the promise of great benefits in years to come from the thrift campaign now being carried on.

There seems to be a prevalent idea in some parts of the country that the New York banks have had the best of the Treasury deposits arising from the Government loans, but this is a misconception. The principal disbursements of the Treasury are made by drafts on New York, and the amount of deposits kept here are not larger than necessary to properly handle the business. Although funds are transferred to this point they are being constantly paid out to the whole country, as the heavy balances against the New York Reserve Bank, and in favor of the other reserve banks in the Gold Settlement Fund, conclusively show. If it had not been for the transfer of paper from the New York bank to reserve banks of the interior, at the instance of the Federal Reserve Board, which has the whole situation under its eye, the equilibrium would have been seriously disturbed by drafts against New York.

The Third Liberty Loan Campaign will soon be on, and plans for making it more effective than any of the preceding ones are being carefully made. The interruption of industry during the winter of course has reduced earnings and accumulations from what otherwise they would have been, but some sections of the country, notably the richest agricultural districts, will be in better condition to subscribe liberally than ever before. The people are in good spirits, loyal to the Government, practically unanimous in supporting the position which the President has taken, and without doubt will respond liberally. They are willing to do whatever is necessary, and if they fail in any degree to do what they should it will be because they do not clearly understand what the conditions of such an unparalleled emergency require.

British Banks.

The reports of the annual meetings of British banks at which the business of 1917 was reviewed have been received during the past month. We gave a month ago the figures for the principal items of the Bank of England, which showed a moderate expansion of loans and deposits. The twenty-one principal banks show approximately $6,300,000,000 of deposits against $5,300,000,000 a year ago, $4,000,000,000 of loans against $2,890,000,000, and investments of $1,460,000,000 against $1,480,000,000 a year ago. It will be seen that there was a small reduction of investments, showing the policy of the banks not to load up with long time securities. The increase of loans is very considerable, and is partly in Treasury bills and partly in loans to the public to aid purchasers of government. All reported these loans as in process of satisfactory reduction, and the manager of the National Provincial Bank reported that of $70,000,000 granted on the last war loan, in March, 1917, 65 per cent. had been paid off. The London City and Midland, which had advanced $130,000,000, reported $70,000,000 paid off.

The banks all reported that for the first time since the war began it was unnecessary to charge off anything against the depreciation of security holdings, there having been no further decline during the past year.

A note of caution was frequently sounded against the inflation of credits and consequent inflation of prices and war borrowings. The Chairman of Barclays Bank, Limited, Mr. Goodenough, in his address to stockholders, said:

The increase in the amount of the current and deposit accounts points to inflation, and the statistics relating to the rise in prices show how important it is that the war finance should be so conducted as to avoid inflation as far as possible. The index figures which give the price of commodities and neces-

saries of life show that the continuous rise in prices corresponds step by step with the expansion of credit which has taken place since the commencement of the war. Each individual should make his subscription for National War Bonds both readily and with regularity, and by doing so will help to bring the war to an earlier conclusion, and also to keep down the prices which must otherwise continue to rise if the war has to be financed by methods which involve inflation of credit.

Sir Edward Holden dealt with this subject quite in detail a year ago. This year his address was largely devoted to a very clear and temperate analysis of German war finance, and an appreciative description of our Federal Reserve System.

Considerable discussion has been occasioned by the recent announcement of four great bank consolidations. The first one was the London and Provincial and London and Southwestern banks with combined deposits of nearly $370,000,000. Following this was the fusion of the National Provincial and the Union of London and Smith's, with combined deposits of $870,000,000, the London County and Westminster and Parr's, with deposits of practically $1,000,000,000 and finally the London County and Midland and London Joint Stock, with deposits of about $1,375,000,000.

It will be seen that these are immense institutions, the combining banks being themselves in nearly every instance the result of previous combinations. This movement to consolidation has been going on for years, and undoubtedly economic gains have been realized. The banking business of Great Britain, to the extent of 80 per cent. or more, is done by not over twenty institutions with their branches reaching into all localities. Evidently there is some public concern lest the movement go too far, for the Chancellor of the Exchequer some days ago announced in the House of Commons, in response to an inquiry, that, having consulted the President of the Board of Trade, he proposed to appoint a committee of bankers, merchants, and manufacturers, to consider and report to what extent they thought it desirable in the public interest to interfere in connection with recent amalgamations of banks in this country. The Chancellor explained that he did not express an opinion on the question of the principle involved, but considered that as the matter was of public importance an inquiry should be held. He expressed the hope that pending the report of the Committee any further schemes of amalgamation which might be in contemplation would not be proceeded with.

Parlimentary Inquiry on Expenditures.

The Parliamentary Committee appointed to conduct an inquiry into British Government expenditures has submitted a partial report and asked time in which to formulate further recommendations. In the opinion of the Committee the cost of the war is being largely increased by the expansion of bank credits, which occurs either by the direct purchase of Government obligations by the banks, or by borrowing from the banks by the public for the same purpose. It believes that there should be more drastic taxation directed in such manner as to affect the private expenditures of the people, avoiding an increase upon strict necessities, but accomplishing restraint in other directions. The report says in part:

Among the chief causes of the rise of prices had been the inflation of credits, the financing of the war by various expedients other than taxation and the raising of loans drawn from the savings of the people. The committee inclined to the conclusion that the increase of paper money had played somewhat a subordinate part in the rise of prices. In Russia notes were printed to make Government payments; here they were only printed for issue to the banks, who paid for them in exchange by presenting valid securities or in other ways.

Among other interesting features of this report is the statement that the bonus given to stabilize the price of bread at nine-pence (18 cents) for the four pound loaf is at the rate of £45,000,000 (about $220,000,000) per year, and the potato bonus is $25,000,000 per year.

The Bond Market.

Bond prices during the first week of February reflected the active advance in the stock market occasioned by the reported industrial strikes in Germany. The advance was sustained and indicated a fundamental change in the public mind concerning business conditions. Over-the-counter business was not large in volume but there were indications of a broadening demand from private investors and prices were well sustained. While the limited number of new issues now offered are in short term form, nevertheless the longer term seasoned issues are now attracting discriminating investors. The municipal market was quite active with a good inquiry for round blocks.

The second week of the month developed dullness in railway and corporation issues with a few exceptions, Hudson & Manhattan A 5's advancing three points. The municipal market continued active and a wider interest was evidenced in the bids submitted for new issues. The outstanding feature of the week was the sale of $20,000,000 New York City Three Months Revenue Bills on a 4.32% basis. They were bought for investment by the successful bidder and were not reoffered.

It has been interesting to note during the month an increasing interest by the larger investment houses in all public sales of municipals; the bidding has been more spirited than for several months past and in some cases from eight to ten bids have been received for the more attractive issues. The City of Chicago sold $560,000 4% Serial Bonds at 94.11, which compares with 93.67 which the city received for a similar issue of $346,000 last year.

An interest in Canadian municipals developed during the month and a Canadian syndicate sold $2,000,000 Province of Ontario Ten-Year 6's at par, and $1,000,000 Province of New Brunswick Ten-Year 6's on a 6½% basis. None of these bonds were sold in the United States.

Some of the larger corporation issues offered during the month include:

$1,000,000 Dallas Power & Light First Mortgage 7% Notes due Feb. 1, 1920 @ 99 and interest, to yield over 7⅛%

3,000,000 Gorham Mfg. Co., Providence, First Mortgage 7% Bonds due Feb. 1, 1919-1924, @ 100 and interest

3,000,000 International Cotton Mills 7% Notes, due Feb. 1, 1920 @ 98½ and interest, to yield about 7.80%

1,300,000 Niagara Lockport & Ontario Power 6% Notes, due Feb. 1, 1920 @ 97 and interest, to yield about 7.64%

7,500,000 Philadelphia Electric Co. 6% Secured Notes, due Feb. 1, 1920 @ 97⅝ and interest, to yield 7¼%

2,000,000 Public Service of Northern Illinois 6% Notes, due Feb. 1, 1920 @ 96⅜ and interest, to yield 7.80%.

1,000,000 Sinclair Refining 6% Notes, due July 1, 1918 to Jan. 1, 1921 at a price to yield 7%

1,200,000 Toledo Traction Light & Power Second Lien 7% Bonds due Jan. 1, 1921 @ 97 and interest, to yield about 8⅛%

1,560,900 Union Light, Heat & Power of Covington, Ky. First Mortgage Lien 6% Notes due Feb. 15, 1920, @ 96⅝ and interest, to yield 7⅝%

7,500,000 United Gas Improvement Co. 6% Notes, due Feb. 1, 1919 @ 99.05 and interest, to yield 7%

1,500,000 West Penn Power 7% Notes, due Feb. 1, 1920 @ 98.55 and interest, to yield 7.80%

1,250,000 West Virginia Water & Electric First Mortgage 6% Bonds, due Sept. 1, 1922, @ 96 and interest, to yield 7%

The larger municipal issues include:

$1,550,000 Cleveland 5% and 4½% Bonds, on a 4.70% and 4.75% basis.

$440,000 Harrisburg, Pa., School District 4½% Bonds on a 4.25% basis.

$1,945,000 Massachusetts 4¾% and 5% Bonds, on a 4.45% basis.

$3,000,000 Massachusetts Eight Months Notes, on a 4.55% basis.

The average price of 40 standard issues as reported by the Wall Street Journal on February 26, was 84.45, compared with 83.96 on January 26 and 94.21 on February 26, 1917.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 21, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	9,760	308.316	10,593	20,530	6,276	5,781	30,143	4,653	15,630	273	8,637	26,916	447,508
Gold Settlement Fund	28,206	63,667	45,383	53,188	17,715	15,639	46,827	26.805	8,011	35,701	16,025	18,106	375,273
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2.888	52.500
Total gold held by banks	41,641	390,095	59,651	78,443	25,828	22,995	84,320	33,558	25,741	38,599	26.500	47,910	875,281
Gold with Federal Reserve Agents	48.696	254.887	71,083	80,903	25,888	48,112	142,980	40,016	41,050	55,664	24.515	43,229	877,023
Gold Redemption Fund	2,000	10.000	1,477	309	351	908	943	1,044	1,449	412	1.020	178	20,091
Total gold reserves	92,337	654,982	132,211	159,655	52,067	72,015	228,243	74,618	68,240	94,675	52,035	91,317	1,772,395
Legal tender notes, Silver, etc	5,954	39,712	937	1,727	378	1,637	5,459	1,353	604	78	1,936	354	60,129
Total Reserves	98,291	694,694	133,148	161,382	52,445	73,652	233,702	75,971	68.844	94,753	53,971	91,671	1,832,524
Bills discounted, Members	59,436	177,330	24,849	35,392	35,116	9,462	78,110	21,470	10,865	18,811	8,304	30,389	509,534
Bills bought in open mark't	16,287	176,737	18,264	8,938	3,497	6,719	15,927	6.323	1.896	1,489	9.971	30,122	296,170
Total bills on hand	75,723	354,067	43,113	44,330	38,613	16,181	94,037	27,793	12,761	20,300	18,275	60,511	(c) 805,704
U. S. Governm't long-term securities	1,330	4,785	6,128	8,261	1,234	3,464	7,007	2,233	3,168	8,862	4,021	2,457	52,950
U. S. Governm't short-term securities	2,194	112,589	4,527	26,262	1,979	3,051	4,732	1,444	4,244	4,453	2,730	1,502	169,707
All other earning assets			10			328	689	159	998		923	329	3,436
Total Earning Assets	79,247	471,441	53,778	78,853	41.826	23,024	106,465	31,629	21,171	33,615	25,949	64,799	1,031,797
Due fr. other F. R. Bks. net				6,046	2,048		16,055	8,712		2.919	329	1,053	(b) 11,463
Uncollected Items	17,897	62,991	33,856	18,836	21,004	17,040	50,460	16,175	8,976	23,880	17,021	11,266	299,402
Total deduction from gross deposits	17,897	62,991	33,856	24,882	23,052	17,040	66,515	24,887	8,976	26,799	17,350	12,319	310,865
5% redemption fund against F. R. bank notes										400	137		537
All other resources			382		14	67						268	731
TOTAL RESOURCES	195,435	1,229,126	221,164	265,117	117,337	113,783	406,682	132,487	98,991	155,567	97,407	169,057	3,176,454
LIABILITIES													
Capital Paid in	6,005	19,665	6,840	8,319	3,739	2,877	9,254	3,489	2,659	3,413	2,815	4,230	73,305
Surplus	75	649			116	40	216		38				1,134
Government Deposits	4,272	7,405	1,611	6,935	1,412	2,440	4,275	4,138	2,756	4,815	4,772	11,334	56,165
Due to members—reserve account	84,711	645,429	82,845	114.067	43,231	38,464	179,349	52,382	39,221	71,070	39,810	69,141	1,459,720
Collection Items	14,482	49,757	27,084	17,809	15,424	10,559	20,736	13,487	3,482	9,085	7,537	9,856	199,278
Due to other F. R. Bk's net	1,405	22,974	608			484			228				
Other deposits incld'g For. Government credits		53.443		156		2	1,919	177	6	9		2.617	58,329
Total Gross Deposits	104,870	779 008	112,148	138,967	60,067	51,929	206,279	70,184	45,693	84,979	52,119	92.948	1,773,492
F. R. Notes in actual circulation	83,701	426,557	102,176	117,434	53,415	58,937	190,442	58,445	50,507	58,719	42.369	71,879	a 1,314,581
F. R. Bank Notes in circulation, net liability										7,999			7,999
All other Liabilities incl. Foreign Govern't credits	784	3.247		397			491	369	94	457	104		5.943
TOTAL LIABILITIES	195,435	1,229.126	221.164	265,117	117,337	113.783	406,682	132,487	98.991	155,567	97,407	169.057	3,176,454

(a) Total Reserve notes in circulation, 1,314,581.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,463: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 63.8%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 66.0%.

(c) Bills discounted and bought; municipal warrants, etc.: 1—15 days 384,826; 16—30 days 186,595; 31—60 days 181,351; 61—90 days 184,778; over 90 days 38,473. Total 976,023.

DISCOUNT RATES UNCHANGED FROM A MONTH AGO.